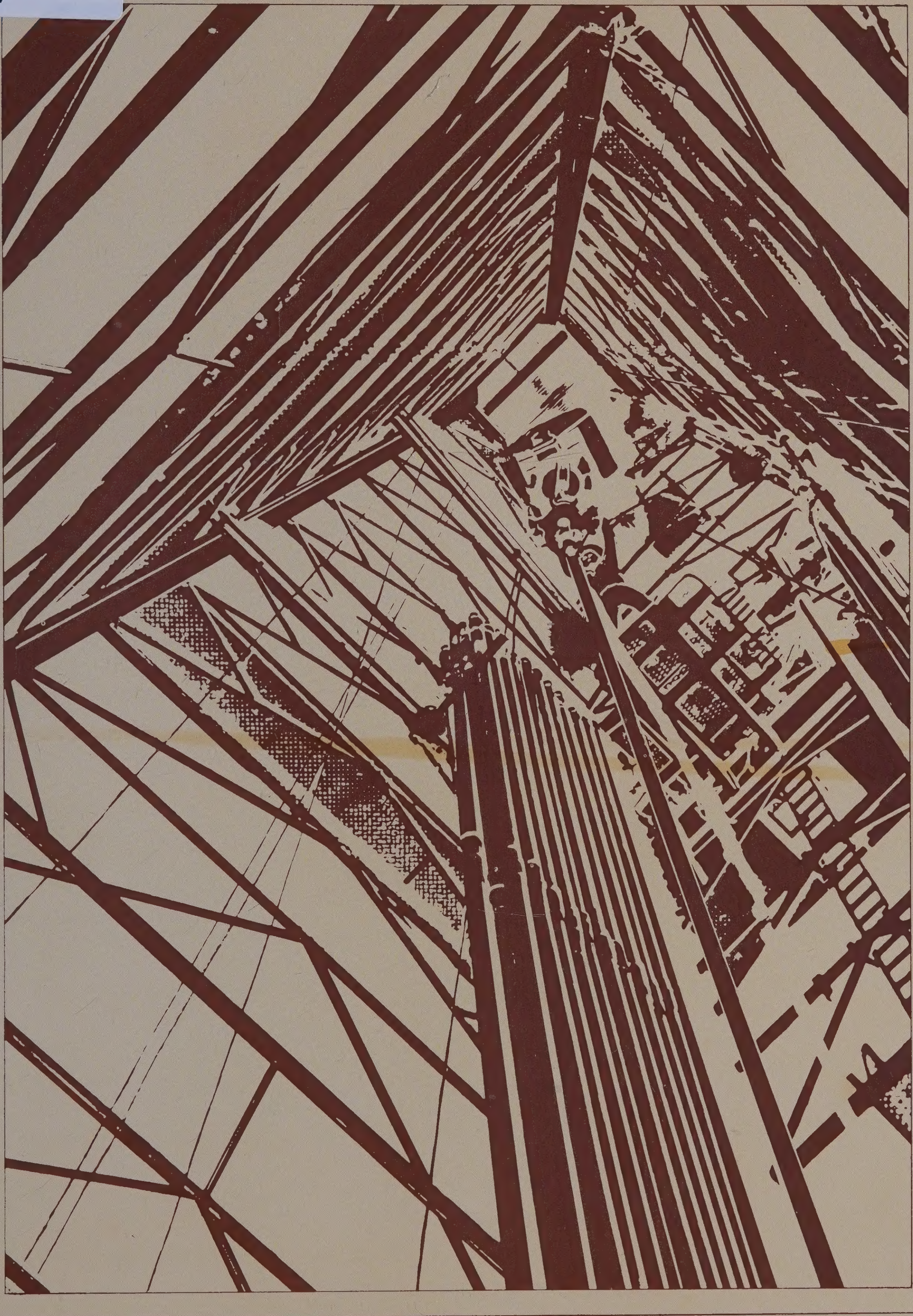

Phoenix Canada Oil Company Limited

Annual Report for the Year Ended December 31, 1980

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE	Toronto, Canada
	JOHN A. MURPHY	Scarborough, Canada
	JASON GOULD (Deceased December 1980)	
Officers	S. DONALD MOORE	President
	JOHN A. MURPHY	Secretary-Treasurer
Offices	EXECUTIVE OFFICES	1960 Royal Bank Plaza South Toronto, Canada M5J 2J4
	ECUADOR	302 — Pazmino 245 y 6 de Diciembre Quito, Ecuador
Banking	THE ROYAL BANK OF CANADA MAIN BRANCH	Toronto, Canada
	THE BANK OF NOVA SCOTIA NEW YORK AGENCY	New York, New York
	BANK OF AMERICA SUCURSAL QUITO	Quito, Ecuador
	BANK OF AMERICA SUCURSAL LIMA	Lima, Peru
Subsidiaries	PETROLERA GENERAL S.A. THE BOLIVIA GAS TRANSMISSION CO. PHOENIX INTERNATIONAL OIL CO. PLANTACIONES DE BALSA S.A. (PLANTABAL)	
Affiliate	HOTEL LA POSADA DE QUITO C.A. (HOLAPOCA)	
Stock Exchange Listing	MONTREAL STOCK EXCHANGE TORONTO STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada M5J 1T8
Auditor	TOUCHE ROSS & CO. CHARTERED ACCOUNTANTS	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares ($1.00 par value)
	ISSUED (May 1, 1981)	2,707,072 Common Shares 273,607 Share Purchase Warrants

farm-ins in Western Canada and the U.S., with a concurrent expansion of U.S. activities in Montana and North Dakota, deriving from the joint venture agreement recently entered into with an experienced senior geologist.

In Progress

The Company has established a priority position in a large, geologically-favourable, prospect area in a rapidly developing foreign exploration play, based on proprietary geological data. A joint venture agreement, with Phoenix maintaining a carried interest through a defined exploration stage, is under negotiation with an experienced operator.

The project's legal parameters and logistics are considered favourable. Substantial excess pipeline capacity serves the area of primary interest. Definitive contract negotiations could be completed before the year-end.

Toronto Listing

The Company's Common Shares were posted for trading on The Toronto Stock Exchange on 20 July 1979.

On Behalf of the Board:

by: S. DONALD MOORE, President

27 August 1979

phoenix canada oil company limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the six months ended 30 June 1979
(With comparative figures for the period 30 June 1978)
(Prepared from Company Records without Audit)

	30 June 1979	30 June 1978
Foreign (Ecuador) gross operating revenue from oil production	$1,883,897	$1,098,953
Less: Direct operating expenses:		
Pipeline tariffs	27,594	25,000
	1,856,303	1,073,953
Less: Foreign (Ecuador) taxation: including income and export taxes, port and foreign exchange charges (Note 1)	1,600,324	941,454
	255,979	132,499
Less: Administration and general expenses	42,930	72,537
Depreciation	642	891
Deferred Ecuador expenses written off and amortization of administration expenses	10,377	10,377
	53,949	83,805
Net Ecuador operating income	202,030	48,694
Net investment income	59,129	20,646
Net foreign exchange gain	—	10,183
Net income for the period	$ 261,159	$ 79,523
Earnings per share	11.74 cents	3.58 cents

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	30 June 1979	30 June 1978
Working capital derived from:		
Net income for the period	$ 261,159	$ 79,523
Add: Non-cash items	11,019	11,268
Net proceeds from Shareholder Rights Offering	—	593,664
Participations in Stokes Range Project	—	315,914
	272,178	1,000,369
Working capital applied to:		
Exploration and development expenses	109,282	8,224
Advances to associated companies	1,299	5,285
Estimated commitment Stokes Range Project	—	300,000
Purchase of fixed assets	114	—
Interest in oil and gas, permits and/or leases	104,359	—
	215,054	313,509
Increase in working capital	57,124	686,860
Working capital beginning of period	1,765,734	1,075,579
Working capital at end of period	$1,822,858	$1,762,439

NOTE 1 — At 31 December 1978, excess foreign (Ecuador) business income tax credits applicable on future Ecuador net income under the Canada Income Tax Act aggregated $6,102,416.

interim shareholder report
for the six months ended 30th June 1979

phoenix canada oil company limited

suite 700 • 15 toronto street • toronto • canada • M5C 2E3

to phoenix shareholders:

Ecuador Royalty Income

Rising spot crude markets sharply increased after-tax Ecuador income. Export prices are based on a formula incorporating both CEPE (State Oil Company) postings (US $26.80 in June) and Platt's Oilgram spot market reports. The price basis increased from US $12.76 in January to US $28.34 in June. Oriente production has remained over 200,000 bbls/day through 1979 to date.

Ecuador International-Class Hotel Project

The Company's equity in this rapidly developing international-class, 5-star, 325-room US $15-million hotel complex is increasing, along with the value of our interest in the 18-acre undeveloped urban land holding surrounding the project. Construction design planning and negotiations for equity and mortgage financing are well along. The previously planned casino gambling facilities have been substantially expanded. Casino management will be contracted by competitive tender to an established operator. Project design has also been expanded to include a tennis and health club membership facility.

The Company's ultimate equity position will be determined by the project financing debt-equity ratio. A substantial gain over cost is virtually assured. The primary profit potential of this project, however, derives from the real estate prospects of the surrounding 18 acres of undeveloped urban land.

New Ecuador Oil Regime

The new civilian Administration, inaugurated August 10, records a peaceful transition, widely and favourably reported in the world press, from over 7 years of military government. Numerous Administration policy statements have stressed the priority to be given new oil exploration by way of incentives for foreign companies. Last November, the 1971 Hydrocarbons Law was revised to enable CEPE to enter into service or risk contracts on the pattern established in other OPEC nations. The Company plans to propose to the several Ministries concerned a direct participation in oil exploration and development, employing our Ecuador investment funds.

Ecuador Agro-Industrial Development

The Ecuador Government has approved the Company's balsa plantation proposal involving the investment of up to $500,000 under an agreement with the Baltek Corporation of Northvale, New Jersey. Baltek has been established in Ecuador balsa for over 40 years and generates substantial national employment and export earnings.

Balsa wood is a sophisticated, relatively low cost, raw material with an exceptional strength-to-weight ratio highly regarded for rapidly expanding markets in several critical energy-related industries. Substantial production is currently employed in light-weight, structurally-strong, insulation for liquified natural gas tankers, for weight-saving truck trailer panels and for aircraft cargo containers, flooring and structural components. Ecuador produces over 90% of the world's balsa, with Baltek the primary manufacturer and exporter of balsa products. Rapid sales growth has been experienced in Europe and Japan since the 1960's. The Baltek agreement provides for options to convert the Phoenix investment into a substantial share position in Baltek, a U.S. public company.

Texaco-Gulf Litigation

Following successful progress through numerous time-consuming pre-Trial motions and hearings, primarily concerning crucial material document productions and discoveries, this action is nearing the stage where Trial dates can be considered. Oral Examinations before Trial of senior officials of the Defendants should commence in September. The Company hopes to soon announce additional progress in this litigation.

Nigeria Oil Production

The Company's income, measured by the volume of production (0.31325% of gross) from the Phillips' 109,252-acre Gilli Gilli lease block, and payable as a direct obligation of Phillips Petroleum, Bartlesville, will commence shortly. Several material variables will determine gross income: ultimate production, based on reservoir performance; transportation logistics; world crude prices; future results of additional exploratory and development drilling; and pipeline connections.

Western Canada Interests

The Company now holds varying working interests in 17,455 gross acres — 5,494 net acres — on 12 Alberta and B.C. prospects. Two gas discoveries, shut-in awaiting markets, have been completed at Boudreau and Sunrise (B.C.) through farmouts at no cost to Phoenix. A farmout commitment has been received on our 640-acre Rigel (B.C.) prospect, to be drilled this Fall. An important Wainoco-Canadian Superior gas discovery is reported at Septimus (B.C.); working interests are held in 3,840 acres in 3 separate blocks within a 5 mile radius of the discovery well.

To implement our recent policy to originate in-house geological plays and lease acquisitions, the Company has completed several regional studies, employing proprietary data, which have generated several Crown Sale lease postings in Alberta and Saskatchewan. Freehold lease negotiations on two plays in Saskatchewan and Manitoba are in progress. By the year-end, the Company also expects to announce several

Star Lake (Sask.) Gold Prospect

Initial exploration of the primary vein, sampled over an exposed strike length of at least 160 ft., and with an average width of approximately 4 ft., reports the following values:

Trench No. 1 — 1.69 oz/24″
+ 0.22 oz/22″
(wallrock — 0.12 oz/24″)

Trench No. 2 — 1.43 oz/33″
(wallrock — 0.93 oz/12″)

Trench No. 3 — 4.52 oz/20″
(wallrock — 0.20 oz/12″)

Trench No. 4 — 0.71 oz/64″
(wallrock — 0.05 oz/12″)

The sampling, comprising large samples (10-15 lbs. each) and two bulk samples (50 lbs. each), indicated a high incidence of finely disseminated free gold content. Several additional strong structural systems, resulting in shear-controlled gold bearing quartz veins, have been located on the extensively overburdened property. The anomalous sulphide content of the shear zones suggests that E.M. survey techniques may be employed to extend the known vein systems and to locate additional structural systems under the overburden. A minimum 2,000 ft. diamond drilling program, with concurrent E.M. survey, is planned to start in October.

On Behalf of the Board:

by: S. DONALD MOORE, President

29 August 1980

phoenix canada oil company limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the six months ended June 30, 1980
(With comparative figures for the period June 30, 1979)
(Prepared from Company Records without Audit)

	June 30, 1980	June 30, 1979
Foreign (Ecuador) gross operating revenue from oil production	$3,133,622	$1,883,897
Less: Direct operating expenses: Pipeline tariffs	25,548	27,594
	3,108,074	1,856,303
Less: Foreign (Ecuador) taxation: including income and export taxes, port, pipeline and foreign exchange taxes (Note 1)	2,678,419	1,600,324
Net oil production income	429,655	255,979
Less: Administration and general expenses	98,184	42,930
Oil and gas and mineral exploration	10,129	—
Depreciation	535	642
Deferred Ecuador expenses written of and amortization of administration expenses	10,377	10,377
	119,225	53,949
Net Ecuador operating income	310,430	202,030
Net investment income	136,477	59,129
Net foreign exchange gain or loss	(28,842)	—
Net income for the period	$ 418,065	$ 261,159
Retained earnings at beginning of period	2,272,574	1,394,942
Retained earnings at end of period	$2,690,639	$1,656,101
Earnings per share	15.46 cents	11.74 cents

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of funds		
Net income for the period	$ 418,065	$ 261,159
Add: Charges not requiring the use of funds		
Depreciation	535	642
Amortization and write-off of exploration, development and administration expenses	10,377	10,377
Funds from operations	428,977	272,178
Proceeds from Shareholder Rights Offering	1,668,546	—
Proceeds from Share Purchase Warrants	1,001,420	—
	3,098,943	272,178
Application of funds		
Purchase of fixed assets	776	114
Interest in oil and gas permits and/or leases	135,171	104,359
Exploration and development expenses, net	(19,754)	109,282
Advances to associated companies	42,370	1,299
	158,563	215,054
Increase in working capital	2,940,380	57,124
Working capital beginning of period	1,855,039	1,765,734
Working capital at end of period	$4,795,419	$1,822,858

NOTE 1 — At December 31, 1979, excess foreign (Ecuador) business income tax credits applicable on future Ecuador net income under the Canada Income Tax Act aggregated $6,775,042.

File

interim shareholder report
for the six months ended 30th June 1980

phoenix canada oil company limited

suite 4990 • commerce court west • toronto • canada • M5L 1A1

to phoenix shareholders:

Financial Notes

Despite the 21% increase in outstanding shares deriving from Shareholder financings during the period under review, the gratifying 60% rise in net income for the 6-months to June 30 led to a 32% increase in earnings per share — to 15.46¢ ($418,065 net income) for the current year from 11.74¢ ($261,159 net income) for the 1979 period.

The improvement reflects higher oil prices, slightly increased production and growth in investment income. Proceeds of the Shareholder financings improved the Company's working capital position — an essential condition to qualify the Company for prospective participations in several pending major foreign energy exploration and development projects.

Ecuador Interests

The Company's net Ecuador oil production averaged 507 BOPD through June 1980, with the "basket of crude prices" ranging between US$36.37 and $31.54/bbl.

The Government announced the imminent release of new Model Contracts designed to attract foreign risk capital into oil exploration. The international oil industry has evidenced considerable interest in draft proposals publicized to date. Company Management regularly consults with Ministry advisors concerning the more material provisions. We expect an invitation to submit bids on blocks within the former Minas and Yasuni contract areas on which considerable exploratory data, deriving from our 1967-72 participations in these areas, is already available.

The Company is evaluating the economic feasibility of employing local investment funds in the 1981 exploration and development program planned by the City Investing Group on their currently producing (about 6,500 BOPD) contract area northeast of the primary joint Texaco/CEPE operations. The prospects for Government approval of our participation in this program cannot presently be determined.

The unusually high interest rates prevailing during early 1980 have delayed completion of the US$16,000,000 in equity and mortgage financing required for our Quito luxury hotel project. However, final architectural, engineering and site planning, including infrastructure provisions, are progressing rapidly. The project financing is currently under intensive negotiation and may shortly be in place for a late 1980 construction start.

Under Andean Pact rules, the Company's US$500,000 balsa plantation project is awaiting routine Government foreign investment approval, expected shortly. Continuing plantation land acquisition negotiations will be implemented promptly upon receipt of this approval. Balsa forestry techniques are in place for early site preparation, plantings and cultivation.

Texaco-Gulf Litigation

Pursuant to a Delaware Court Order of February 26, pre-Trial discoveries were required to be completed by July 14, except "for good cause shown." Preparations for the formal pre-Trial conference are underway, in accordance with the Federal Rules of Civil Procedure, to establish, in general, areas determined as in agreement or admitted by the parties, and those matters remaining in dispute, all as derived from the extended discovery procedures completed to date. Trial dates are set following the pre-Trial conference.

Peruvian Oriente Activities

Pursuant to the terms of our February 25 agreement with Superior Oil, Houston, in which Phoenix holds a 20% working interest, their completion of Petroperu negotiations on the exploration, development and exploitation contract for Block 2 (about 2,650,000 acres) is imminent. Peru's recently elected civilian Government has established policy priorities to promote foreign investment in the oil and mining industries. Petroperu has indicated that the Superior et al Block 2 contract is expected to be the first ratified out of the new round of Oriente exploration agreements now under negotiation.

The Company's position derives from proprietary geological and geophysical data acquired over several years. Block 2 immediately adjoins both the productive Occidental and Petroperu operations and lies generally in the same geological environment as Ecuador's oil production. The 16″ Oxy branch pipeline transects the contract area, connecting with the main 36″ Pacific pipeline near the southern Block 2 border. This access considerably enhances exploration and exploitation logistics and economics. Earlier seismic programs have located and defined a major prospective structure (Chapuli), over 100,000 acres in extent and with approximately 500 ft. of closure.

Canada/U.S. Oil and Gas Operations

Company leases now aggregate approximately 55,000 gross acres (over 34,000 net acres) in Western Canada and over 9,300 gross acres (about 4,500 net acres) in the Williston Basin of the Dakotas. Company interests are acquired on the basis of defined geological and geophysical plays.

The Company is advised that exploratory wells will be drilled this year on the North Badger and Bashaw (Alta.) leases and on the South Taylor and Fireweed (B.C.) leases. Negotiations are underway for a seismic program, at the expense of others, on the Redvers (Sask.) leases and for a seismic option/farmout on our Govenlock South (Sask.) block. Our first Canadian production, gas at Rigel (B.C.), will be on stream in October.

The Company will continue to expand holdings in the Williston Basin of the Dakotas and Montana, always based on specific geologial and geophysical prospects deriving from the Calgary joint venture established in mid-1979 with an experienced senior geologist/consultant. An early start on a leasing program on an extensive U.S. shallow gas prospect is under study.

Highlights

We are pleased to report record revenues and earnings for the 1980 fiscal year. Net income for 1980 was $1,114,389, more than double 1979 earnings of $531,762. Reflecting the increase in average issued capital over the 1980 fiscal year, at 2,488,500 shares, compared with 2,224,141 shares in 1979 — earnings increased to 45¢ per share in 1980 from 24¢ per share in 1979. Gross revenues increased to $7,047,395 in 1980 from $4,581,211 in 1979. Working capital at the 1980 year-end totalled $4,938,981, compared with 1979's $1,855,039.

Noteworthy during the year under review:

- 1980 oil production from all sources, net to the Company's interest, averaged 485 bbls/day.
- 1980 oil prices averaged US$34.95/bbl, ranging from US$31.55/bbl in April to US$39.64/bbl in December.
- For the 1981 1st Quarter, oil prices for the Company's net production averaged US$38.99/bbl.
- On March 26, 1981, the Company's subsidiary, Petrolera General S.A. of Delaware, completed the Peru Block 2 Contract covering 2,500,000 acres in the northern Peruvian Oriente (Amazon region) with Petroperu, the State oil Company, and the Peruvian subsidiary of The Superior Oil Company.
- Initial Canadian gas production income (from the Rigel Field, B.C. working interest).
- Initial Alberta gas reserves established (on the 1920-acre North Badger, Alta. working interest block).
- An important Williston Basin lease acquisition program largely completed by May 1981; particulars remain confidential pending a slim hole stratigraphic test drilling program planned this summer.
- Acquisition of working and carried interests in and near several important wildcat wells projected for Western Canada, Peru and on the U.S. offshore Georges Bank.
- Additional diamond drilling planned for the Company's Star Lake, Sask. gold prospect; modest ore reserves established in limited 1980 drilling.
- Oil and gas leasehold interests expanded to 63,969 gross acres (41,108 net acres) in Western Canada and 27,360 gross acres (23,781 net acres) in the U.S. Williston Basin.
- The Ecuador balsa plantation project, to supply a renewable resource for expanding energy-related markets, entered the planting and cultivation stage.
- Panarctic's major Lougheed Island oil discoveries in the Arctic Islands are located approximately 80 miles northwest of the Company's Bathurst Island holdings.
- Completed and pending pre-Trial proceedings suggest the reasonable possibility that the Texaco-Gulf litigation will be resolved this year.
- Working capital increased substantially following the successful May 1980 Shareholder Rights Offering and the June 1980 exercise of expiring Share Purchase Warrants.

Ecuador Operations

Current oil production income is calculated on a formula employing a generally accepted "basket" of world crude prices — including published spot market quotations, designated long term contract prices and the OPEC "benchmark" crude price. Advantageous 1980 price patterns improved after-tax income; current world crude price stability should maintain Company income at current figures, subject to the maintenance of production levels in the Texaco-operated Coca Contract area.

The Ecuador Government has sponsored industry-wide international presentations publicizing the proposed Model Contract that will govern future foreign investment in newly-opened oil exploration areas, focusing on the high-risk, high-reward, Oriente (Amazon region) where substantially all of the nation's present oil reserves are established. Governments now seeking private capital for the exploration and development of indigenous energy resources are finding this environment much more competitive. Further, with largely stabilized oil and gas prices, production-sharing and similar

contract terms are becoming less arbitrary and more uniform on an international basis. This improves the investment climate and the prospects for independent company participations.

Accordingly, we remain optimistic that the Company's position in some of the promising former Minas-Yasuni contract areas can be reinstated on reasonable terms, capitalizing on our access to proprietary geological, geophysical and drilling data deriving from the pre-1973 expenditures of over US$22-million — basic exploration requirements with a present replacement value of up to 400% over cost — on the Minas-Yasuni lands.

Ecuador Industry Assets

Ecuador tax law provides that the Company invest a proportion of after-tax income in approved industrial developments. An OPEC oil exporter, agriculturally self-sufficient, Ecuador's generally strong economy and stable, convertible currency provide a persuasive rationale for new industrial investment. The Company has established investments in two export-oriented industries eligible for special tax incentives — agro-industry and tourism.

Government and Andean Pact approvals have been received for our balsa plantation project. The Company's wholly-owned development company — Plantaciones de Balsa S.A. (PLANTABAL) — will be operated by Baltek Corporation, Northvale, New Jersey, a U.S. public company established over 40 years ago and controlling upwards of 90% of the world's balsa industry. Ecuador produces over 95% of the world's balsa, founded upon a fortuitous combination of special volcanic soil and climatic conditions.

In addition to expanding non-energy markets, including boating and models, foreseeable balsa markets for insulation of LNG cryogenic tankers and weight-saving aircraft and truck structural panels promise explosive growth during the 1980's. As a renewable natural resource, costs will become increasingly favourable in relation to competitive petrochemical materials.

LNG tankers require the uniform insulation quality best obtainable from plantation-grown balsa. By this year-end, the Company will have about 2,000 acres of plantation lands cleared, planted and under cultjvation. The Phoenix-Baltek agreement provides for the potential conversion of our investment into a substantial equity interest in Baltek.

High interest rates continue to delay completion of the financing package for the Company's Quito luxury hotel project. The total investment budget has expanded to near $20-million, deriving from inflationary cost increases, expanded sports and country club facilities and a separate, self-contained, gambling casino operation. Crucial municipal and tourism ministry approvals of infrastructure plans and essential tax incentives are in place.

Recent independent appraisals of the Company's 50% equity in its 27-acre urban land assembly, of which about 7.5 acres comprises the hotel site, have reported on substantial appreciation over cost since our 1976 purchase. Based on overall land values to be employed as security, several competitive mortgage proposals from international financial institutions have been received; final decisions will be based on interest rate costs and the terms of the cash equity investment.

Texaco-Gulf Litigation

Based on recent proceedings in the Delaware Federal District Court, the latest on May 13, the Company is advised that a resolution of this litigation before the year-end is a reasonable possibility. Pre-Trial proceedings, including the complex and lengthy discovery process, are substantially complete. Company counsel anticipates that a Trial date may be set by October, subject to delays occasioned by further pre-Trial actions initiated by the defendants, Texaco and Gulf.

Peru Petroleum Operations Contract

After a 2-year effort, the Company's subsidiary, Petrolera General S.A. of Delaware, with a 10% working interest, on March 26, 1981 executed a definitive exploration and development agreement on the 2,500,000-acre Block 2 in the Peruvian Oriente (Amazon region), formally designated a "Petroleum Operations Contract," with the Peruvian State oil company, Petroleos del Peru (PETROPERU), and a subsidiary of The Superior Oil Company, the operator, with a 90% working interest.

The contract area is located in the northern sector of Peru's trans-Andean region, commencing about 50 kilometers from the Ecuador border. Occidental Petroleum currently produces oil from a contract area immediately northeast of Block 2, while the Petroperu fields are located east of Block 2. Occidental's 16" branch pipeline transects Block 2, connecting with the main 36" Northern Peru-Pacific coast pipeline about 65 kilometers south of Block 2. The existing pipeline facilities and right-of-way enhances the project's economics. Wildcat drilling operations, employing a helicopter rig under contract with Parker Drilling of Tulsa, are planned to commence by November.

The Operations Contract provides for an exploratory commitment of two wells during the initial 2-year term. The basic economic parameter provides for 50% production-sharing with Petroperu (all royalties, export taxes and duties are payable by Petroperu) on production volumes up to 150,000 bbls/day; 48% (to the Contractors, Superior and Petrolera) of production from 150,000 to 200,000 bls/day; 46% of production from 200,000 to 250,000 bbls/day; 44% of production from 250,000 to 300,000 bbls/day; and 42% of production in excess of 300,000 bbls/day. Subject to incentives based on approved re-investment in the oil sector, income taxation rates are graduated to a maximum of 68%.

The initial wildcat well will be drilled on a large, seismic-delineated, closed structure — designated Chapuli. The primary prospective horizon is the Lower Cretaceous Cushabatay formation, which correlates with the primary Ecuador producing horizon, the Hollin, expected to be reached at 15,500 to 16,000 ft.

Subject to the completion of legal documentation, corporate approvals and other requirements, the Company, on behalf of Petrolera General S.A., has entered into a financing agreement that, if implemented, will result in Phoenix eventually holding a 50% interest in the Peru subsidiary.

Western Canada Oil and Gas Leasehold Interests

We continued the policy of lease acquisitions limited to Company-defined plays, generated by in-house geological expertise, and ultimately based on hard data, some proprietary — subsurface geology and geophysics. Canada's new National Energy Policy (NEP) radically revises the economics of Western Canada operations. If all presently official, controversial, NEP provisions on taxation, hydrocarbon prices and Canadian ownership are maintained, the financial parameters and character of Canada's oil industry will be totally altered. However, it seems premature to speculate on the final legislation since recent, unofficial, Federal and Provincial energy announcements indicate that a workable settlement of the many conflicting Government and industry claims in the "energy pie" is increasingly likely.

The sharp reduction in drilling activity resulting from NEP uncertainties has moderately reduced the strong price competition for oil and gas leases, in both Provincial Crown sales and freehold mineral negotiations. Accordingly, there appears to be a temporary opportunity to acquire prospective leasehold interests on more favourable terms. Given the predictable moderation of the more onerous or unworkable NEP policies now discouraging industry investment, the Company's leasehold position could become much more valuable, and the subject of increased industry interest, later this year.

Company leaseholdings now aggregate 63,969 gross acres (41,108 net acres) in Western Canada — in Alberta: 27,360 gross; 23,781 net — in Saskatchewan: 6,704 gross; 6,464 net — in Manitoba: 11,920 gross; 8,007 net — in British Columbia: 17,985 gross; 2,856 net.

The Company's undeveloped leasehold interests are, in part, subject to assignment for a substantial equity interest in a new, largely foreign-financed, exploration company presently in organization (see the succeeding "In Progress" heading). Further, the apparently fixed elements of the NEP; namely, increased Canadian ownership fostered by exploration and development grants under the Petroleum Incentive Policy (P.I.P.), may result in more direct Canadian investor participation in oil and gas exploration under exceptionally favourable terms. Phoenix is planning to organize a Canadian oil and gas financing entity in order to qualify for maximum P.I.P. grants. In addition to third party ventures, it is contemplated that certain key Company leaseholds will be farmed out to the new entity for exploration and development.

The Company will participate in several important wells planned through early 1982 — in Alberta; D-3 tests at Bashaw, Chigwell and Malmo; Taber and Moulton tests at Coutts — in British Columbia; a Halfway/Doig test on a farmout pooling our recently-acquired (80% working interest) 960 acres at Goose/Cache Creek North; projected tests at Taylor, Rigel and Fireweed — in Manitoba; an option on several Redvers area leases was granted to Saskoil in conjunction with their June wildcat drilling commitment.

In 1980, the Company received its first Canadian production income from a Rigel, B.C. gas discovery participation. A promising Bow Island gas discovery, our first Alberta reserves, was completed on our 1920-acre North Badger lease block. D-3 tests, drilled at no cost to the Company, were abandoned at Chain Lakes and Bashaw, Alta.; however, results were inconclusive and are currently being followed up with additional seismic work preparatory to further drilling on both prospects.

United States — Williston Basin Interests

Despite extremely competitive leasing costs, we acquired leasehold interests now aggregating 34,347 gross acres (27,352 net acres) in the Williston Basin States of North and South Dakota and Montana. As in Canada, the Company generated all the geological and/or geophysical prospects on which leases were acquired. We limited our interest to technically well-documented areas, based in part on proprietary data, where confirmed by subsurface geological studies. Core lease acquisitions are substantially complete, although some negotiations remain in progress. Increasingly competitive leasing conditions dictate that the Company not release any project particulars at this time.

The Company is planning a slim hole stratigraphic drilling program this summer on prospects where substantial leasehold interests are held on a 100% basis. Our evaluation of prior work and available data indicates a reasonable possibility of commercial hydrocarbons. This play is promising due to favourable target formation characteristics and reasonably well-defined closed structural conditions.

Offshare U.S. Acquisition

The Company has agreed to acquire for Treasury stock a 3.2589% working interest in two Georges Bank leases, Blocks 2 and 1006, totalling 11,336 acres, off the U.S. North Atlantic coast, about 120 miles southeast of Cape Cod. The leases were successfully bid at a December 1979 competitive lease sale. These blocks are the only smaller independent company holdings in this area and are operated by Adobe Oil of Midland, Texas. The Georges Bank is within the offshore trend south of the accelerating exploration activity on the Newfoundland Grand Banks and Nova Scotia Shelf.

Subject to final Federal and State environmental permits, the U.S. Geological Survey has approved proposed wildcats by Exxon (15,500 ft.), Mobil (18,500 ft.), Getty (17,000 ft.) and Shell (18,000 ft.). Further applications have been filed for three Mobil-operated tests (20,000 ft., 19,000 ft.and 15,000 ft.), another Exxon well (15,000 ft.) and two Tenneco-operated tests (both to 21,000 ft.). All proposed wells are in the relatively limited area of the initial Georges Bank sale — 67° to 68° Lat. and 40°30′ to 41° Long.

Saskatchewan Gold Prospect

Under a 1980 exploration agreement with MSZ Resources Ltd., a $150,000 exploration commitment was completed on the Phoenix gold prospect at Star Lake, about 80 miles north of La Range and 4 miles from the Rabbit Lake all-weather road. The 2,000 ft. diamond drilling program on the previously sampled high grade zone encountered sporadic gold values in all 12 shallow holes over a strike length of about 500 ft. Drilling over the exposed quartz-bearing shear zone indicated an average zone width of between 3 and 4 ft. and a possible 30,000 tons of ore grading between 0.1 oz and 0.2 oz. gold per ton within the drilled portion of the mineralized zone.

Geologically, the drilling indicated an apparent northeast plunge of the pinch-and-swell structure of the high grade zone and a southwest plunge of the gold-bearing quartz-rich lenses within the same zone, suggesting a complex structure containing at least two separate tectonic events. The property covers a heavily sheared granitic intrusive-volcanic contact generally considered a favourable environment for host gold values in the La Range region. A newly-discovered mineralized outcrop, within a largely overburdened area about a mile south and on strike with the drilled high grade zone, returned an interesting gold assay. Earlier work on the high grade zone, over a strike length of about 160 ft., returned assays averaging over 1.0 oz. per ton; most channel samples assayed several ounces per ton, the best returning 5.96 oz. per ton across a 20 in. vein width.

A new exploration agreement is being negotiated providing for a commitment to undertake detailed geological mapping of the entire property, a geochemical soil sampling program, testing of several additional geophysical techniques and about 5000 ft. of diamond drilling.

In Progress

Your Management's approach to our business may be summarized as concentration on high-risk, high-reward ventures, generated on a ground-floor basis by Company personnel. Each such venture must initially indicate the potential technical and economic merit to justify the assumption of the initial major risk investment by others. The caveat on this quite obvious approach is the extended time required to complete the always complex negotiations establishing, for each venture, viable legal, economic and technical parameters. Shareholder support for this approach has been gratifying over the years. Accordingly, we have generally concentrated on larger projects, generated by Management — rather than acquiring heavily-promoted minority interests in smaller, scattered plays. Smaller prospects are considered where the Company has a majority or ground-floor participation.

To expand both domestic and foreign exploration exposure, Phoenix is co-sponsoring a new, largely foreign-financed, exploration company planned to commence operations with about $12-million in cash assets. As and when the financing is in place, Phoenix will hold the largest, though minority, equity interest, acquired for assets other than cash, together with substantial incentives by way of income participations granted in consideration for management services. Upon completion of the financing, the new company will acquire, for stock, 50% of the Phoenix working interest in certain undeveloped leasehold interests in Canada and the U.S.

Phoenix has delivered its proposed production sharing contract terms on a 4,360,000-acre, largely offshore, foreign oil and gas exploration concession, following technical evaluations and preliminary negotiations underway since March 1980. The State oil company involved has informed Phoenix that final decisions on definitive contract terms will be made within 30 days.

The Company's Peru activities may expand significantly if pending proposals on a secondary recovery project for the coastal Talara Basin, and on a contract Block in the Oriente, are accepted. Based on the Block 2 Contract terms, and the basic income tax regime under which subsequent contracts are likely to be negotiated, it is anticipated that the overall legal and economic parameters will be acceptable.

Phoenix is also participating in the organization of a new Peruvian contract drilling company to specialize in helicopter rig operations in the Oriente/Amazon area. Domestic companies operating east of the Andes are income tax exempt. Our Peruvian associates have many years of experience in drilling rig operations in the Oriente jungle region. The prospects for the successful conclusion of Company negotiations for additional business interests in Peru cannot presently be determined.

The Company continues to evaluate coal industry ventures, primarily in the United States. Two promising projects — one with substantial, proven high-quality surface mining reserves in southeastern Montana — and the other comprising an integrated western Pennsylvania coal operation, which includes substantial coal reserves, a modern coal cleaning plant and proximity to low cost transportation to export markets — are under active consideration. Both ventures are tentatively structured to remain under Phoenix control, with financing planned by way of debt, with equity participation, obtained from foreign institutions directly or indirectly affiliated with the long term export markets required to make these projects viable.

Phoenix retains a small (12.5%) working interest in a 6-well gas production unit in Clay County, West Virginia. The original capital investment, now fully recovered, and net income are modest. With current gas prices about US$2.20/MCF, the long life reserves will provide a useful cash flow for many years.

We are presently evaluating an acquisition, for stock, of a minority interest in an Alberta exploration partnership comprising sizeable proven and probable reserves, largely gas, underlying about 69,000 gross acres (10,500 net acres). Further interests are held in approximately 175,000 gross acres (29,500 net acres) of untested leaseholds among the partnership assets.

The Company's comfortable working capital position, together with contingent access to substantial additional capital resources through affiliated and/or controlled entities, will enable the Company to aggressively expand its energy resource operations in accord with stated Management goals.

Submitted On Behalf Of The Board:
by: S. DONALD MOORE,
President

May 29, 1981.

Consolidated Balance Sheet as at December 31, 1980

ASSETS

	1980	1979
Current		
Cash and short term deposits	$4,693,608	$1,672,901
Accounts receivable	380,480	258,440
Marketable investments, at cost (market value $91,667, $56,794 in 1979)	26,176	26,176
	5,100,264	1,957,517
Investments, at cost		
Shares	1,000	1,000
Advances	129,240	60,172
	130,240	61,172
Interest in and expenditure on oil and gas, mining properties, at cost (Notes 2 and 8)		
Oil and gas leases and/or permits	1,147,999	605,312
Mining properties	5,000	—
Deferred exploration, development and administration expenditure	424,829	335,797
	1,577,828	941,109
Other, at cost		
Land and developments costs (Note 3)	360,299	351,161
Furniture and fixtures	4,513	3,237
Organization expenses	3,770	3,770
	368,581	358,178
	$7,176,913	$3,317,976

LIABILITIES

	1980	1979
Current		
Accounts payable	$ 161,283	$ 102,478

SHAREHOLDERS' EQUITY

	1980	1979
Capital Stock		
Authorized		
$5,000,000 divided into 5,000,000 shares with a par value of $1 each		
Issued		
2,704,269 shares (2,224,141 in 1979)	2,704,269	2,224,141
Less: Discount on shares	(1,696,096)	(1,696,096)
Add: Premium on shares	2,620,494	414,879
	3,628,667	942,924
Retained Earnings	3,386,963	2,272,574
	7,015,630	3,215,498
	$7,176,913	$3,317,976

Approved by the Board:

Donald Moore Director

Director

See accompanying notes to Financial Statements

AUDITORS' REPORT

To the Shareholders
Phoenix Canada Oil Company Limited

We have examined the consolidated balance sheet of Phoenix Canada Oil Company Limited as at December 31, 1980 and the consolidated statements of income and retained earnings, exploration, development and administration expenses and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
April 28, 1980

Touche Ross & Co

TOUCHE ROSS & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 1980

	1980	1979
Foreign gross operating revenues from oil production	$6,686,242	$4,430,482
Direct operating expenses	52,780	54,568
	6,633,462	4,375,914
Foreign taxation; including income and export taxes, port, pipeline and foreign exchange taxes	5,599,911	3,772,504
Net oil production income	1,033,551	603,410
Expenses		
Administration and general	258,098	137,654
Amortization of deferred expenditure	20,754	20,754
Depreciation	1,463	1,287
Oil, gas and mineral exploration	—	62,682
	280,315	222,377
Net operating income	753,236	381,033
Investment income	306,059	124,062
Foreign exchange gain	55,094	26,667
Net income for the year	1,114,389	531,762
Retained earnings at beginning of the year	2,272,574	1,740,812
Retained earnings at end of the year	$3,386,963	$2,272,574
Earnings per share	44.8 cents	23.9 cents

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENDITURE

For the year ended December 31, 1980

	1980	1979
Balance at beginning of the year	$335,797	$281,493
Exploration and development expenditure — oil and gas		
General exploration	56,885	1,438
Lease rentals	21,448	5,215
Professional services	14,341	17,006
Drilling and completion costs	6,641	86,424
Land management fees	1,046	—
	100,361	110,083
Exploration and development — mining		
Professional services	6,466	5,424
Travel	2,522	—
General	437	3,570
Survey	—	13,663
	9,425	27,657
	445,583	419,233
Less		
Amortization of oil and gas and administration expenditure	(20,754)	(20,754)
Write-off of mining expenditure	—	(62,682)
	(20,754)	(83,436)
Balance at end of the year	$424,829	$335,797

See accompanying notes to Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1979

	1980	1979
Source of funds		
Net income for the year	$1,114,389	$ 531,762
Add: Charges not requiring the use of funds		
Depreciation	1,463	1,287
Amortization and write-off of deferred expenditure	20,754	83,436
Funds from operations	1,136,606	616,485
Proceeds on sale of shares and warrants	2,685,743	200
	3,822,349	616,685
Application of funds		
Exploration and development expenditure	109,786	137,740
Advances to associated companies	69,068	43,404
Purchase of fixed assets	2,738	132
Acquisition of interest in oil and gas, and mining properties	547,687	331,547
Land developments costs	9,128	14,557
	738,407	527,980
Increase in funds during the year	3,083,942	89,305
Funds at beginning of the year	1,855,039	1,765,734
Funds at end of the year	$4,938,981	$1,855,039
Represented by Working Capital		
Current assets	$5,100,264	$1,957,517
Current liabilities	161,283	102,478
	$4,938,981	$1,855,039

See accompanying notes to Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 1980

1. Significant Accounting Policies

a) Basis of Consolidation

The company accounts for its share of the assets, liabilities, and deferred expenditure of a foreign corporate joint venture in which it participates, by proportionate consolidation method. The joint venture is in the development stage and the summary of the company's share of the operations is as follows:

	1980	1979
Cash	$ 3,741	$ 1,338
Deposit certificate	54,915	53,636
Land improvements	115,852	115,852
Equipment	21,817	21,309
Deferred development expenses	25,999	18,659
	222,324	210,794
Accounts payable	44,424	32,894
	$177,900	$177,900

b) Translation of foreign currencies

Assets, liabilities, revenue and expenses recorded in the accounts in foreign currencies have been translated to Canadian funds as follows:

Current assets and liabilities at year end exchange rates and other assets at historical rates
Revenue and expenses at the rate in effect at the transaction date

Gains and losses resulting from foreign exchange rate transactions are credited or charged to income during the year.

c) Exploration and development expenditure

i) Petroleum and natural gas interests

For all oil and gas activities, the company follows the full cost method of accounting, whereby all costs relative to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells less any proceeds from the disposal of properties.

Separate full cost centres are maintained for each operating area. Net costs incurred in each of these areas are amortized on a straight line basis over ten years. Should exploration activity in an area prove successful, the unamortized balance of the cost centre is depleted by the unit of production method. Should exploration activity in an area prove unsuccessful and management decides that there is a little prospect for further work in the area, the unamortized balance of the cost centre is written off entirely.

ii) Mining properties

Interest in and expenditures on outside mining properties is deferred in the accounts to be amortized when production from them is attained or the balance thereof written off when disposition occurs.

2. Interest in, and expenditure on oil and gas, and mining properties

The company's unamortized interest in and expenditure on its oil and gas, and mining properties in the amount of $1,557,828 ($941,109 in 1979) can be realized only from the future commercial success of those properties or the proceeds from disposition thereof.

3. Assets held in a foreign country

Assets held by the company in Ecuador are included on the company's balance sheet although investment restrictions require that 50% of the earnings in Ecuador be re-invested in the country. As a result of the re-investment requirements the company has entered into joint ventures to develop a luxury hotel in Quito Ecuador and commercial balsa plantation lands.

As at December 31, 1980 the company held net current assets of $1,498,077 ($897,865 in 1979) in Ecuador.

4. Related party transactions

During the year the company paid $35,000 ($31,355 in 1979) to officers and directors for services rendered. No remuneration was paid to directors for their services as directors.

5. Income taxes

Due to the payment of direct foreign income taxes the company has a foreign business income tax credit under Canadian income tax law and consequently no income taxes are payable in Canada. As at December 31, 1980 the company's foreign business income tax credit was $7,471,543 ($6,775,042 in 1979).

6. Gulf agreement of sale of 37.5% working interest

Effective as of December 31, 1976, the Ecuador Government oil company purchased the 37.5% Gulf Oil Corporation working interest in Ecuador oil production rights and operations for US$115-million. The company is not receiving production income from Gulf's Ecuador interests and has taken legal steps to secure an equitable proportion of the said consideration.

7. Capital Stock

a. During the year the company issued the following shares:

	No of Shares	Consideration	Premium	Par Value
Exercise of share purchase warrants expired June 30, 1980	200,284	$1,001,420	$ 801,136	$200,284
Exercise of subscription rights (Note 7(b))	278,091	1,668,546	1,390,455	278,091
Exercise of share purchase warrants expiring May 27 1982 (Note 7(b))	1,753	15,777	14,024	1,753
	480,128	$2,685,743	$2,205,615	$480,128

b. Effective March 27, 1980 the company issued rights to shareholders to subscribe for units consisting of one share and a purchase warrant (1982) for a price of $6.00 per unit. Pursuant to this offer subscriptions were received for 278,091 units at a value of $1,668,546. The 1982 share purchase warrants entitle the holder to subscribe for an additional share for each warrant held at a price of $9.00 per share on or before May 28, 1981 and at a price of $11.50 per share on or before May 27, 1982. As at December 31, 1980, 276,338 purchase warrants were outstanding.

8. Subsequent events

By agreement dated April 23, 1981 the company has sold a 50% working interest in all its undeveloped oil and gas leasehold interests in the Canadian provinces of Alberta, Saskatchewan and Manitoba and the States of North and South Dakota and Montana, U.S.A. to Chadwick Energy Corporation ("Chadwick"). The company will retain a 5% gross overriding royalty interest in all leaseholds covered by this sale. In consideration for the sale, the company has received 1,250,000 common shares and 625,000 share purchase warrants of "Chadwick". The sale is subject to "Chadwick" obtaining financing as detailed in a prospectus filed with the Ontario Securities Commission on April 27, 1981. Two of the company's directors are also directors of "Chadwick".

Pursuant to the terms of the company's joint venture agreement to develop commercial balsa plantation lands in Ecuador, the company has segregated 10,000,000 sucres ($478,000 Cdn.) to be used as capital in the joint venture.